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Kill Prop. 13 at your own risk

Imagine a (scary) world where Prop. 13 doesn't exist.



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This will be hard to do, but let's pretend I'm wrong.

The government isn't too big. Public-sector unions aren't too greedy. Every last penny in California's \$100 billion budget is necessary. We certainly can't fix the state's \$14 billion budget deficit by cutting any government

programs, jobs, services or agencies. And the only reason public schools, which consume more than 40 percent of the state's general-fund budget, are so malfunctioning is because taxpayers are stingy. As Gov. Arnold Schwarzenegger said Tuesday in his State of the State speech, "Government can work. It can be efficient. It can lead." As many politicians seem to believe, it is government, not the private sector that is the prime generator of the state's high quality of life.

Let's believe this line of reasoning for the sake of argument. Let's embrace the idea that the state really does have a *revenue* problem rather than a *spending* problem, as most Democrats and many Republicans would have you believe.

So, let's dispense with the political fighting and get to the business of solving the state's problems. Under the above-described conventional wisdom, there is no choice. The only thing left to do is raise taxes. California already has one of the highest income taxes in the country, one of the highest sales-tax rates and one of the highest business tax rates. It has an overall tax burden that, according to Jon Coupal, president of the Howard Jarvis Taxpayers Association, is in the top 10 nationwide.

Aha, you say. California may have high taxes in many areas, but the state has one of the lowest property tax burdens in the country,

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thanks to Proposition 13 (and to anti-tax activist Howard Jarvis, who led the charge for it). That was the 1978 citizen initiative – passed over the squeals from the state's government and business communities – that caps property tax at 1 percent of the property's assessed value, down from an average 2.6 percent tax rate before its passage. Prop. 13 also limits increases in property valuations to 2 percent a year, so that people can't be taxed out of their homes when property values spike, as was common during the late 1970s.

So – remember that we're pretending here – let's just get rid of Prop. 13. Although long considered the "third rail" of California politics (politicians who touch it get electrocuted, just like those who touch the third rail on an electric railroad), Prop. 13 has its enduring foes. They blame everything, from global warming to crumbling infrastructure, on the historic tax rebellion.

Let's believe them. Let's forget, for a moment, that starting five years ago "the inflation-adjusted, per-capita property tax collections in California began to surpass pre-Prop. 13 levels," explains Coupal. Let's forget that governments in California have long received higher, inflation-adjusted, per-capita revenue in all areas of taxation than before Prop. 13, as they found other ways to raise dollars to pay for their

programs and bureaucracies.


Let's forget the truth and just go with the flow. For instance, the Los Angeles Times' consumer columnist, David Lazarus, argued in his Jan. 9 column: "Either we spend less money or we raise revenue, or both. All things considered, our friends in Sacramento aren't going to suddenly discover the value of frugality – unless packed schoolrooms, broken bridges and crumbling levees are your idea of satisfactory quality of life. So that means we need to get our hands on some extra cash. ... Proposition 13 is as good a place as any to start."

Notice how enemies of Prop. 13 always bring up the prospect of crumbling infrastructure. They want you to believe that government spends its money on vital services and only comes back to the taxpayer when the needs are so great they have no other choice. They want you to believe that the lack of frugality is driven by enormous need, rather than by the desire of politicians to spend Other People's Money buying favors that help them get re-elected. They don't want you to realize that legislators generally stiff the general taxpayer by shortchanging the amount of money spent on infrastructure, then say, "You better give us more cash if you don't like the traffic jams."


It's awfully hard to pretend that the state has

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been cash-crushed since Prop. 13's passage. San Diego's anti-tax activist Richard Rider notes that in 1977, the state budget was \$10 billion. It's now 10 times that amount – even though inflation has gone up only 300 percent over the same time. Fiscal conservatives like to explain that in the 1960s the state spent as much as 20 percent of its general fund on fundamentals such as infrastructure but now spends about 3 percent on such fundamentals (plus some additional bond funds).

Notice also that in Lazarus' world, eliminating Prop. 13 is a good place to "start," which makes you wonder if we'd be allowed to keep anything once these tax-supporters have rifled through our wallets. But let's still pretend these tax-hike advocates are right. What happens now?

Well, most of us who have owned property in the past 10 years have watched our home values triple. Without Prop. 13 protecting us, our tax bill would have soared. Coupal told me the taxes on my modest house could have increased *sevenfold* under a perfectly reasonable scenario. I could be paying an extra \$1,100 per month, or more than \$13,000 more a year, just in taxes if the tax rate went back to where it was in the late '70s. That amount of cash might not mean much to Warren Buffett, the billionaire who wants to nix Prop. 13 and who was quoted approvingly in the Times column, but it

means a heck of a lot to me.

That extra \$13,000 is about half of what my daughter's college tuition will cost me next year. It's also equal to about three hefty car payments, a half-dozen annual trips to Hawaii and 1,000 12-packs of good-quality beer. By the way, that 13 grand is after-tax income, so the extra property tax bill would be the equivalent of getting a severe pay cut. Even if the tax rate remained at 1 percent of a property's current market value, my taxes would nearly triple overnight. My guess – the government would still say it is being shortchanged, and your local school district and water district would still try to float new bonds every few years, and the rate would start creeping up rather quickly.


No pretending here: Eliminate Prop. 13, and your tax bill will soar, so that government (whose workers are paid more than most of us and who enjoy pensions far in excess of what most of us receive) won't have to live within its means. Many people would soon be taxed out of their homes. Property values could plummet. "It would take the declining real estate market and put it into a freefall," Coupal said. "If you want to drive people out of state, this would be a quick way to do it."

Who wants to take the chance that I'm wrong?


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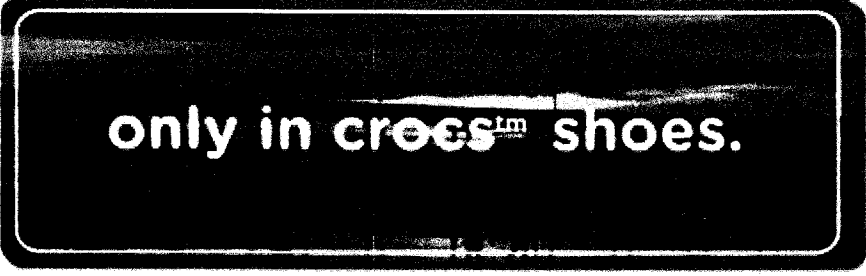
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